**Transcript of Press Conference Call With Senator Kent Conrad (D-ND)**
**on Third Quarter GDP Report**
**October 30, 2003**

The economic growth number for the third quarter is just excellent news. I'm delighted by it.

On the other hand, I don't think this should be surprising given the fact that the government is writing hundreds of billions of dollars of hot checks. The operating deficit for the year just concluded is over $525 billion, which is quite extraordinary.

And even with that amount of fiscal stimulus, combined with an accommodative monetary policy from the Federal Reserve, we still have seen no net job growth in the third quarter. In fact, if we compare this recovery to previous recoveries, then we see this recovery running well behind previous recoveries, both in terms of growth of the economy and in terms of job creation. In fact, this has largely been a jobless recovery.

As I see it, the problem with the President's economic plan is that there are no end to deficits even with strong economic growth. And the President's policy, as I see it, props up the economy in the short-term, but the growth of deficits and debt under his plan undermines economic growth in the long-term. In other words, it's just not sustainable.

Many of us proposed stimulative tax cuts in the short-term, but a return to fiscal balance over time as a better long-term strategy. The President supported the tax cuts in the short-term to stimulate the economy, but even larger tax cuts for the long-term even when he projects economic growth returning. That to me is a dangerous policy that will hurt the economy over time.

It's a little like a drunk going on a binge. It feels good for awhile, but you all know the hangover is coming. So, that to me is the fundamental problem with the President's economic policy.

With that I'd be happy to answer any questions people might have.

*Question:* What are your thoughts in terms of job creation in the next couple of quarters. Some economists believe that there will be some meaningful job creation. What are your thoughts on that.

*Conrad Answer:*

My own view is that job creation will pick up with a resumption of economic growth. I think we will continue to see it be disappointing in comparison to economic growth because of increases in productivity. So as we've seen throughout this recovery, job growth is badly trailing what we've seen in previous recoveries, as has economic growth. You know, in the first seven quarters of other recoveries, growth has averaged about 5.3 percent. Here it's running about 3.4

percent. And typically at this stage of a recovery you would see much more robust job growth. We're seeing productivity gains offset the impact of economic growth and lead to a largely jobless recovery.

But I do anticipate there will be a pickup in employment going forward until about the end of 2004 when models show that the economy will then weaken again because of the accumulative growth of deficits and debt. In other words, in the short-term, running these large deficits prop up the economy. In the long-term, they undermine it. That's the fundamental problem with the President's plan. He has supported massive tax cuts not only in the short-term, which many of us supported, but his policy continues those tax cuts and magnifies them even when economic recovery is underway according to his own analysis. That, most economists believe, will undercut the economy.

*Question:* The administration, Secretary Snow, and other Republicans are putting out statements saying these numbers show that the President's policies of tax cuts to stimulate the economy etcetera is working. How are you going to counter that?

*Conrad Answer:*

What's working is a combination of things. One, massive fiscal stimulus that is a combination of increased federal spending on defense and homeland security, coupled with tax cuts, coupled with an accommodative monetary policy, very low interest rates.

The problem with the President's policy is not so much in the short-term. As I have said repeatedly, it's in the long-term because the President continues these deficits for as far as the eye can see. In fact, if his policies are adopted, the deficits explode as the baby-boomers retire, undercutting the economy, putting upward pressure on interest rates, which will reduce economic growth. And most of the models show that the President's policy in fact does work in the short-term, and interestingly enough, until about the end of 2004. Then the accumulation of deficits and debt start to serve as a giant loadstone around the neck of the economy and we start to see the economy moving backwards. That's the fundamental problem with the President's plan.

You know, I don't think it should be surprising to any of us that if the government writes $500 billion of hot checks that it's going to boost the economy in the short-term. And I think virtually everyone supported fiscal stimulus in the short-term. The problem is the long-term, and the President's policy takes us right over the cliff in the long-term.

*Question:* When do you think that we will start seeing signs of the economy having a difficult time in the long-term, and what will those signs be?

*Conrad Answer:*

What we see is, and the econometric models show that you get a good short-term boost through about the end of 2004, and then the accumulation of deficits and debt start to pull you back.

*Question:* In what way do you think the economy will start falling back?

*Conrad Answer:*

Well, in several ways. One, interest rates rise and then what happens is you get slower economic growth, you get less job creation, and the economy falters. I think it is fair to say economists can't be precise as to when that occurs, but they are – I'd say the strong consensus is that this dynamic unfolds because there are consequences to spending more money than you take in. And, especially there are consequences if you do that over a long period of time. In the short-term, I think virtually all of us would agree to spend more than you take in provides stimulus to the economy.

So a combination of higher government spending, which we've seen in defense and homeland security, coupled with reduced taxes, gives stimulus to the economy. Virtually all of us supported that basic strategy in the short-term. The problem is it is not a sustainable policy. You can't keep doing that, and over time you have got to return to fiscal balance or something close to it.

And, that's the fundamental weakness of the President's plan. He never returns to fiscal balance, and in fact, the deficits in the short-term get better, but in the longer-term absolutely explode in a way that is totally unsustainable. That is why the Comptroller General of the United States, Mr. Walker, gave his speech [last month to the National Press Club]. That's why so many others have said the President's long-term plan will weaken the economy, not strengthen it.